

Direct Loans

William D. Ford Federal Direct Loan Program

Federal Direct Consolidation Loan Borrower's Rights and Responsibilities

The William D. Ford Federal Direct Loan (Direct Loan) Program includes the following Direct Loans:

- Federal Direct Stafford/Ford Loans (Direct Subsidized Loans)
- Federal Direct Unsubsidized Stafford/Ford Loans (Direct Unsubsidized Loans)
- Federal Direct PLUS Loans (Direct PLUS Loans)
- Federal Direct Consolidation Loans (Direct Consolidation Loans)

The Direct Loan Program is authorized by Title IV, Part D, of the Higher Education Act of 1965, as amended (the Act).

A Direct Loan is made by the United States Government and is administered by the U.S. Department of Education (ED). ED's Direct Loan Servicing Center will manage, answer questions about, and collect my loan. I will be provided with the address and telephone number of the Direct Loan Servicing Center when my Direct Consolidation Loan is made.

1. Change of Status. Under federal law, I must notify the Direct Loan Servicing Center, in writing, if any of the following events occurs before my loan is repaid:

- I change my address
- I change my name (for example, maiden name to married name)
- I change my employer or my employer's address or telephone number changes
- I have any other change in status that would affect my loan (for example, the loss of eligibility for an unemployment deferment by obtaining a job)

If I am still in school, I must notify my school's financial aid office if any of the following events takes place:

- I reduce my enrollment status to less than half time
- I withdraw from school
- I stop attending classes
- I fail to enroll for any term
- I have a change in my expected graduation date
- I change my name, local address, or permanent address

2. Loan Identification Numbers. My Direct Consolidation Loan may have up to three individual loan identification numbers. These numbers will be determined and assigned by ED depending on the loan(s) that I have chosen to consolidate. Even if three separate consolidation loan identification numbers are assigned by ED, I have only one Direct Consolidation Loan and will receive only one bill.

2a. The following **subsidized loans** will be consolidated under one loan identification number:

- Subsidized Federal Stafford Loans
- Guaranteed Student Loans (GSL)
- Federal Insured Student Loans (FISL)
- Federal Direct Stafford/Ford Loans
- Federal Direct Subsidized Consolidation Loans
- Federal Perkins Loans
- National Direct Student Loans (NDSL)
- National Defense Student Loans (NDSL)
- Subsidized Federal Consolidation Loans

2b. The following **unsubsidized loans** will be consolidated under one loan identification number:

- Unsubsidized Federal Stafford Loans (including Non-Subsidized Stafford Loans made prior to 10/1/92)
- Federal Supplemental Loans for Students (SLS)
- Unsubsidized Federal Consolidation Loans
- Federal Direct Unsubsidized Consolidation Loans
- Federal Direct Unsubsidized Stafford/Ford Loans
- Auxiliary Loans to Assist Students (ALAS)
- Health Professions Student Loans (HPSL)
- Health Education Assistance Loans (HEAL)
- Nursing Student Loans (NSL)
- Loans for Disadvantaged Students (LDS)

2c. The following **parent PLUS loans (unsubsidized)** will be consolidated under one loan identification number:

- Federal PLUS Loans
- Parent Loans for Undergraduate Students (PLUS)
- Federal Direct PLUS Loans
- Federal Direct PLUS Consolidation Loans

3. Interest Rate. It is my responsibility to pay interest on my loan. Interest will be calculated according to the applicable formulas provided for by the Act and/or ED's regulations. The interest rate that applies to my loan will be included in a letter that I will receive from the Direct Loan Servicing Center when my Direct Consolidation Loan is made.

The interest rate on my Direct Consolidation Loan will be based on the weighted average of the interest rates on the loans being consolidated, rounded to the nearest higher one-eighth of one percent, but shall not exceed 8.25%. This is a fixed interest rate, which means that the rate will remain the same throughout the life of the loan.

4. Interest Charges. Interest will be charged from the date my Direct Consolidation Loan is made. However, for all of the

loans that I consolidate from Item 2a, ED will not charge interest on my Direct Consolidation Loan during in-school, grace, and deferment periods. For all of the loans that I consolidate from Items 2b and 2c, ED will charge interest on my Direct Consolidation Loan during all periods.

ED will charge interest on my Direct Consolidation Loan during a forbearance period.

I must pay any interest charged during an authorized period of deferment or forbearance *or* capitalize the unpaid accrued interest by having it added to the loan principal at the end of the deferment or forbearance period, as provided under the Act. If I choose to capitalize unpaid accrued interest, the total cost of my loan will increase.

The Taxpayer Relief Act of 1997 may allow me to claim a federal income tax deduction for interest payments I make on Direct Loans for the first 60 months (whether consecutive or not) that such loans are in repayment. The deduction applies to interest payments I make on or after January 1, 1998. For further information, I may refer to the Internal Revenue Service (IRS) Publication 970, which is available at <http://www.irs.ustreas.gov>.

5. Grace Period. My Direct Consolidation Loan will receive a 6-month grace period before the first payment on my loan must be made if all of the following conditions are met:

- I have at least one Direct Loan or attend a Direct Loan school,
- At least one Direct Loan or Federal Family Education Loan (FFEL) Program loan that I am consolidating is in an in-school period, and
- My application for a Direct Consolidation Loan is received by ED prior to the end of my in-school period.

The grace period begins the day after I cease to be enrolled at least half time at an eligible school. (If my enrollment status changes to less than half time after I apply but before the first disbursement of my Direct Consolidation Loan, I will not have to make payments on my Direct Consolidation Loan for the number of months remaining in my grace period at the time the first disbursement is made.)

My grace period does not include any period up to 3 years during which I am called or ordered to active duty for more than 30 days from a reserve component of the Armed Forces of the United States, including the period necessary for me to resume enrollment at the next available regular enrollment period.

6. Repayment. My first payment will be due within 60 days of the first disbursement of my Direct Consolidation Loan unless I meet the conditions outlined in Item 5 or am eligible for a deferment.

I must make payments on my loans even if I do not receive a bill or repayment notice. Billing information is sent to me as a

convenience, and I am obligated to make payments even if I do not receive any notice.

I will be given the opportunity to choose one of the following loan repayment plans.

Note: The time periods given for each repayment plan do not include periods of deferment and forbearance.

- **Standard Repayment Plan** – If I choose this plan, I will make fixed monthly payments and repay my loan in full within 10 years from the date the loan entered repayment. Payments must be at least \$50 a month and will be more, if necessary, to repay the loan within the required time period. The amount of the payments may be adjusted annually to reflect changes in the variable interest rate.
- **Extended Repayment Plan** – If I choose this plan, I will make fixed monthly payments and repay my loan in full within 12 to 30 years, depending on the total amount of my loan and other allowable education debt. Payments must be at least \$50 a month and will be more, if necessary, to repay the loan within the required time period. The amount of the payments may be adjusted annually to reflect changes in the variable interest rate.
- **Graduated Repayment Plan** – If I choose this plan, my payments will be lower at first and will increase, generally every two years. I will repay my loan within 12 to 30 years, depending on the total amount of the loan and other allowable education debt. Payments must cover interest charges and can never be less than 50 percent or more than 150 percent of the amount I would have paid under the Standard Repayment Plan. The amount of the payments may be adjusted annually to reflect changes in the variable interest rate.
- **Income Contingent Repayment Plan** – If I choose this plan, my monthly repayment amount is based on the total amount of my loan, my family size, and my Adjusted Gross Income (and that of my spouse if I am married). Until ED obtains the information needed from the IRS to calculate my monthly repayment amount, my payment will equal the amount of the interest that has accrued on my loan unless I request a forbearance. As my income changes, my repayment amount may change. If I have not repaid my loan after 25 years under this plan, the unpaid portion of the loan is forgiven. I may have to pay income tax on any amount forgiven.

Note: PLUS loans (refer to Item 2c) that are consolidated cannot be repaid under the Income Contingent Repayment Plan.

If I do not choose one of the plans, ED will choose a plan for me in accordance with ED's regulations. However, if I demonstrate to ED's satisfaction that the terms and conditions of the repayment plans are not adequate to accommodate my exceptional circumstances, ED may provide an alternative repayment plan.

There will be no penalty for prepaying any portion of my loan. All payments and prepayments are applied in the following order: late charges and fees, and collection costs first, outstanding interest second, and outstanding principal last.

If I fail to make any part of an installment payment within 30 days after it becomes due, I may owe a late charge. This charge may not exceed six cents for each dollar of each late installment.

7. Consequences of Default. Default (failing to repay my Direct Consolidation Loan) is defined in detail in the disclosure of terms in my promissory note. If I default, the entire unpaid balance and collection fees will become due and payable immediately. Failure to repay this or any federal student loan may result in any or all of the following:

- loss of my federal income tax refunds
- legal action against me
- collection charges (including attorney fees) being assessed against me
- loss of my eligibility for other federal student aid
- loss of my eligibility for loan deferments
- negative credit reports to credit bureaus
- my employer withholding part of my wages to give them to ED (wage garnishment)

8. Credit Bureau Notification. Information concerning the amount, disbursement, and repayment status (current or delinquent) of my loan will be reported to one or more national credit bureau organizations on a regular basis. If I default on my loan, this will also be reported to national credit bureaus. I will be notified at least 30 days in advance that default information is to be disclosed to a credit bureau unless I enter repayment on the loan within 30 days. I will be given a chance to ask for a review of the debt before it is reported. ED must provide a timely response to a request from any credit organization regarding objections I might raise with that organization about the accuracy and completeness of any information ED has reported.

9. Discharge. If I am applying singly for a Direct Consolidation Loan, my loan will be discharged if documentation of my death is submitted to the Direct Loan Servicing Center or if I am eligible under the regulations governing a discharge due to a permanent and total disability. If I am applying jointly with my spouse, the death and disability discharges will only apply if both my spouse and I either die or become permanently and totally disabled.

To apply for a loan discharge due to permanent and total disability, I (and my spouse if applicable) must submit a discharge application to the Direct Loan Servicing Center. The application must be certified by a doctor.

ED will not approve a request for discharge for permanent and total disability for a condition that existed before I applied for any of the loans that I am consolidating unless a doctor certifies that the condition substantially deteriorated after the loan(s) was made rendering me totally and permanently disabled.

Under certain circumstances, all or a portion of my Direct Consolidation Loan debt may be discharged if I am/was unable to complete a course of study because my school closes/closed or my eligibility was falsely certified by my school. The Act also provides for loan discharge in the amount of any required refund that my school fails/failed to make.

ED does not vouch for the quality or suitability of academic programs offered by schools participating in any federal student financial aid program. Repaying my loans is not conditional on the performance of the school I attend/attended or on my obtaining employment in my field of study.

I may assert, in certain proceedings before ED, that I have a defense against repayment of a Direct Loan. ED may recognize as a defense against repayment an act or omission by the school that I am/was attending that would give rise to a legal cause of action against the school under applicable State law, as long as that act or omission directly relates to the loan or to the school's provision of educational services for which the loan is/was provided.

My Direct Consolidation Loan will not be discharged automatically in bankruptcy. In order to discharge a loan in bankruptcy, I must prove undue hardship in an adversary proceeding before the bankruptcy court.

10. Special Repayment Arrangements. If I am a full-time teacher and at the time I signed the promissory notes for the subsidized and unsubsidized student loans that I am consolidating I had no outstanding balance on a Title IV loan made before October 1, 1998, I may be eligible for loan forgiveness. ED will repay a fixed amount of my student loans that I am consolidating if I have worked as a full-time teacher for 5 consecutive school years, if I am not in default on any such loan, and if I meet all other eligibility requirements under the Act.

11. Deferments. Under certain circumstances, I am entitled to postpone making payments on my Direct Consolidation Loan. Upon request, the Direct Loan Servicing Center will provide me with a deferment application that explains the eligibility requirements. If I am in default on my Direct Consolidation Loan, I am not eligible for a deferment.

If I consolidate my loan(s) jointly with my spouse's loan(s), we both must meet deferment eligibility criteria at the same time in order to postpone making payments on our Direct Consolidation Loan.

Deferments are available in the following situations:

- While I am enrolled at least half time at an eligible school
- While I am engaged in a full-time course of study in a graduate fellowship program
- While I am engaged in a full-time rehabilitation training program for individuals with disabilities (if the program is approved by ED)
- While I am conscientiously seeking, but unable to find, full-time employment (for up to three years)
- While I am experiencing an economic hardship (including Peace Corps service) as defined by federal law (for up to three years)

The Direct Loan Servicing Center will process an in-school deferment based on (i) my request along with documentation verifying my eligibility, or (ii) the Direct Loan Servicing Center's receipt of information from my school about my eligibility in connection with a new loan, or (iii) the Direct Loan Servicing Center's receipt of student status information indicating that I am enrolled on at least a half-time basis.

In all other cases, I must provide the Direct Loan Servicing Center with a deferment request and evidence that verifies my eligibility.

If, at the time I consolidate my loan(s), I have an outstanding balance on a FFEL Program loan (formerly known as a GSL) that was made prior to July 1, 1993, additional deferments may be available. These include deferments while I am:

- Temporarily totally disabled (for up to three years)
- Unable to secure employment because I am required to care for a spouse or dependent who is temporarily totally disabled (for up to three years)
- Serving in the U.S. Armed Forces, the Commissioned Corps of the Public Health Service, the National Oceanic and Atmospheric Administration Corps, or the Peace Corps (for up to three years)
- Serving as a full-time paid volunteer for a tax-exempt organization or an ACTION program (for up to three years)
- In a medical internship or residency program (for up to two years)
- Teaching in a designated teacher shortage area (for up to three years)
- On parental leave (for up to six months)
- A working mother entering or re-entering the workforce (for up to one year)

Note to Direct PLUS Consolidation Loan Borrowers:

You may also be eligible for deferments while the student for whom you borrowed a parent PLUS loan is dependent and:

- Enrolled at least half time at an eligible school
- Engaged in a full-time graduate fellowship program
- Engaged in a full-time rehabilitation program for individuals with disabilities (if the program is approved by ED)

The Direct Loan Servicing Center can provide additional information about deferment eligibility.

12. Forbearance. If I am unable to make my scheduled loan payments, ED may allow me to reduce my payment amount or to temporarily stop making payments as long as I intend to repay my loan. Allowing me to temporarily delay or reduce loan payments is called a forbearance.

If I am willing, but financially unable, to make payments under my repayment schedule, forbearance may be granted for circumstances such as:

- financial hardship
- illness
- service in a medical or dental internship or residency program, if I meet specific criteria
- service in a national service position for which I receive a national service education award under the National and Community Service Trust Act of 1993
- periods of time when my monthly debt burden for all federal Title IV student loans equals or exceeds 20 percent of my total monthly gross income (for up to three years)

ED may grant me a forbearance for up to 60 days in order to collect and process documentation supporting my request for a deferment, forbearance, change in repayment plan, or consolidation.

ED may grant me forbearance to eliminate a delinquency that persists even though I am making scheduled installment payments.

I may contact the Direct Loan Servicing Center for information on how to apply for forbearance.

13. Subsequent Consolidation. If I do not consolidate all eligible loans at this time, I understand that I may consolidate an additional eligible loan(s) by submitting a request to ED within 180 days after the date on which my Direct Consolidation Loan is made. The Disclosure issued when a subsequent consolidation is completed shall be controlling and will include the balance of this Direct Consolidation Loan.

If I want to consolidate an additional eligible loan(s) after this period of time, I will need to apply for a new Direct Consolidation Loan.